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April 29, 2005

Hand-Delivered

Jeff Hatch-Miller, Chairman
Marc Spitzer, Commissioner
William Mundell, Commissioner
Michael Gleason, Commissioner
Kristin Mayes, Commissioner
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Arizona Corporation Commission
DOCKETED

APR 29 2005

DOCKETED BY	KJ
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Re: Commission Docket No. W-03512A-03-0279

Dear Chairman and Commissioners:

Pine Water Company is in receipt of the Exceptions to Judge Nodes' Recommended Opinion and Order that were filed on April 25, 2005, by the Utilities Division ("Staff") in the above-referenced docket. As I read those Exceptions, Staff apparently believes it should not play an active role in the development of a permanent solution to the water supply problems that plague Pine, Arizona. Pine Water Company is very disappointed by Staff's position, and believes it should be rejected.

The problem of inadequate water supplies in northeastern Gila County and the regulatory responses to that problem have a long history, which dates back some 20 years to the first moratorium on new connections imposed by the Commission in the area now served by Pine Water Company. At that time, chronic system mismanagement and a lack of investment by our predecessor exacerbated the regional water supply shortage. Since acquiring the Pine and Strawberry water systems in 1996, Brooke Utilities has made substantial system improvements, and, despite having a much larger customer base, now serves water to its customers with minimal interruption. However, meeting the demands of 2,000 customers in Pine requires management of our limited water supplies 24 hours a day, 7 days a week, 365 days of every year.

Pine Water Company takes its responsibility to provide water utility service very seriously. As this Commission has recognized, we have done a good job of managing our limited water supplies and maximizing the benefit to our customers. Despite our best efforts, however, the hydrologic realities facing Pine Water Company and its customers have not changed. Assistant Director Steve Olea has stated in proceedings before the Commission on several occasions that

Brooke Water L.L.C. Circle City Water Co. L.L.C. Strawberry Water Co., Inc. Pine Water Co., Inc.
Payson Water Co., Inc. Navajo Water Co., Inc. Tonto Basin Water Co., Inc.

"there is no more water in Pine, Arizona." Unfortunately, Mr. Olea is right. Pine Water Company cannot increase the quantity of groundwater in the region, nor can we invest unlimited amounts of capital looking for additional water supplies that may never be found. Pine Water Company is a small water utility already facing severe financial constraints, including a limited customer base from which to recover the tremendous costs associated with solving a regional water supply shortage.

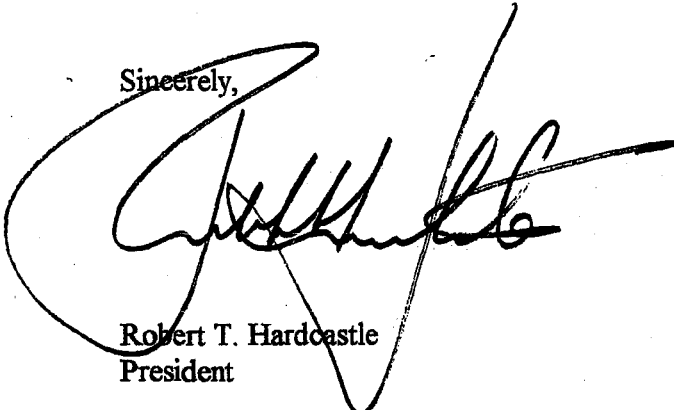
We recognize that customers and the Commission want the best possible answers to what, if anything, can be done and at what cost. Therefore, we are willing to accept the recommendations of Judge Nodes (who himself has been involved in Pine Water Company matters for several years) that potential long-term solutions to the area's water supply problems be analyzed further. Judge Nodes has recommended that the Commission direct "*Pine Water and the Commission's Staff* to be actively involved in analyzing and discussing all feasible long-term permanent solutions to the water shortages in Pine." Staff's Exceptions, however, indicate that Staff has no desire to participate in this process, choosing instead to remain on the sideline waiting to play Monday morning quarterback. This approach has not worked in the past, and I suggest it will not work now.

The Commission, Staff and Pine Water Company have all agreed that the water supply problem arises due to the region's inadequate groundwater supplies, and not because of the actions or inactions of the utility. As several of you have stated previously, a solution, if one is to be found, requires the combined efforts of all stakeholders. Staff is a key stakeholder. While we remain willing to investigate possible solutions, we do not have the resources to solve a regional water supply problem by ourselves. Staff could provide invaluable assistance by bringing its engineering, financial and regulatory expertise to the table. Staff, as the representative of a key state agency, also has the ability to pursue possible solutions that Pine Water Company lacks. For instance, Mr. Olea, who is already familiar with our circumstances and is respected by all interested parties, could chair a task force bringing various State agencies, Gila County, local business leaders and customer groups together to determine what solutions exist and whether they are economically feasible.

Hopefully, you can see why we are disappointed by Staff's unwillingness to play an active role in solving our regional water supply problem. Frankly, Pine Water Company is uncertain whether a long-term solution is available or, if a solution is available, whether the costs can be borne by the utility and our ratepayers. We can assure you, however, that without the active participation of the Commission's Staff, these questions will likely remain unanswered. Judge Nodes wisely recognized this and recommends that Staff no longer stand on the sideline. We couldn't agree more, and respectfully urge you to reject Staff's proposed amendments.

Commissioners of the Arizona Corporation Commission
April 29, 2005

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read 'R. Hardcastle', is written over the word 'Sincerely,' and extends down over the name 'Robert T. Hardcastle'.

Robert T. Hardcastle
President

cc:

RTH correspondence file
Docket Control
Dwight D. Nodes, Administrative Law Judge
Ernest Johnson, Director
Janice Alward, Esq.
Jay L. Shapiro, Esq.